

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**PUBLIC UTILITIES COMMISSION**

IN RE: VALLEY GAS COMPANY  
COST OF GAS ADJUSTMENT FACTOR

DOCKET NO. 1736

REPORT AND ORDER

On January 25, 2000, the Valley Gas Company/Bristol and Warren Gas Company ("Valley" or "Company") filed with the Public Utilities Commission ("Commission") a request to reduce its purchased gas price adjustment ("PGPA") clause factor for tariff No. 100 from \$0.652 per Mcf to \$0.435, a decrease of \$0.217 per Mcf. This would lower the average residential heating customer's bill by \$20.40 per annum, to be effective with cycle billings in February 2000.

A public hearing was conducted at the offices of the Commission, 100 Orange Street, Providence, on January 28, 2000. The following appearances were entered:

FOR THE COMPANY:	Deming Sherman, Esq.
FOR THE DIVISION:	Paul J. Roberti Assistant Attorney General
FOR THE COMMISSION:	Adrienne G. Southgate General Counsel

The Company called Thomas Philbin, the Company controller.<sup>1</sup> In his prefiled testimony and exhibits, Mr. Philbin described Valley's proposal to reduce its PGPA. He also delineated the manner in which the proposed average cost of gas for the eleven months ended August 31, 2000, \$4.12, is impacted by the "Outline for Incentive Structure" adopted

by the Commission in its prior order in this docket. The Company projected an average cost of \$4.23 per Mcf. Around this, a “dead band” was established, to capture a level of uncertainty and also to offer an opportunity for Valley to lock in a price. Within the dead band, the PGPA works as it has done traditionally; Valley can recover 100% of its gas costs, as long as the actual costs at the end of the year are within plus or minus ten percent of what the Company anticipated. Since \$4.12 is within the “dead band”, there is no risk/reward allocation flowing from this reduction.

In his prefiled testimony, Mr. Philbin presented a calculation of the proposed PGPA factor of \$0.435 per Mcf. The factor was calculated as follows:

Forecasted Cost of Gas	\$17,213,282	
Less:		
Base cost of gas	\$14,683,831	
Dual fuel sales margins	5,854	
Interruptible sales margin	85,926	
Deferred Gas Cost account		
Balance	<u>499,804</u>	
		<u>(15,275,415)</u>
Amount to be recovered	\$1,937,867	
Forecasted firm sales	4,592,000 Mcf	
PGPA factor (\$1,937,867 divided by 4,592,000)		\$0.422 per Mcf
Adjusted for Gross Receipts Tax (x1.031)		\$0.435 per Mcf

The second witness was Alan H. Roy, Valley’s assistant vice-president of gas supply.<sup>2</sup> Mr. Roy explained that the decrease of 21.7 cents in the Company’s PGPA was caused mainly by current and projected lower wellhead natural gas prices. Weather in the October-January period has been about 9% warmer than usual; and despite a recent increase

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<sup>1</sup> Mr. Philbin’s prefiled testimony and exhibits were admitted as Valley Exs. 1 and 2.

<sup>2</sup> Mr. Roy’s prefiled testimony and exhibits were admitted as Valley Exs. 3 and 4.

in the cost of gas in response to cold weather in mid-January, future wellhead gas prices remain below the levels projected in the August 1999 filing.

Moreover, Valley had taken steps to reduce gas prices. At the end of October, the Company utilized the futures market to lock in quantities of gas which resulted in a savings of over \$238,000. In November, additional volumes were secured, saving a further \$274,000.

On behalf of the Division, Mr. Roberti expressed support for the reduction in the PGPA factor.<sup>3</sup>

At an open meeting on January 31, 2000, the Commission considered the filing and found the proposed PGPA factor to be reasonable, supported by the evidence, and in compliance with the Company's tariff.

Accordingly, it is

(16182) ORDERED:

The Valley Gas Company's PGPA factor will be set at \$0.435 per Mcf, effective with cycle billings in February 2000.

EFFECTIVE AT PROVIDENCE, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON JANUARY 31, 2000. WRITTEN ORDER ISSUED MARCH 1, 2000.

PUBLIC UTILITIES COMMISSION

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<sup>3</sup> Osram Sylvania, an intervenor in the previous PGPA hearings, was not represented at the hearing. However, when contacted by Commission counsel, Osram's counsel did not oppose the reduction.

Kate F. Racine, Commissioner

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Brenda K. Gaynor, Commissioner